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Book Review

Accounting Essentials for Hospitality Managers, 2nd Edition

Chris Guilding, Oxford, UK, Elsevier, Butterworth-Heinemann, 2009, Softcover, 347 pages, ISBN 978-1-85617-667-5.

Accounting Essentials for Hospitality Managers is the second edition of the book. Interestingly, the first edition of the same book was titled Financial Management for Hospitality Decision Makers and published in 2002. Author explains in the preface that a restructuring of the content was necessary as the target audience of the book is managers at the hotel property level and hospitality management students. In addition, author explains that some of the financial management topics covered in the first edition would be relevant to finance specialist working for corporate offices for large hotel companies. With the re-structuring of the book, the focus is more on the managerial accounting concepts instead of financial management.

The new edition of the book includes 14 chapters. After the first introduction chapter, the book consists three main sections: The first section includes Chapters 2-5 that focus on financial accounting. The second section, Chapters 6-12 delve into managerial accounting and last section, namely Chapters 13-14 covers two topics from financial management. Compared to the first edition, Chapter 6 on internal control and Chapter 11 on performance measurement are new chapters added in second edition.

The first chapter starts with the explanation of the characteristics of the hospitality industry and how these characteristics affect accounting and financial management practices within this industry. Uniform System of Accounts for the Hospitality Industry (USALI) is also introduced in this chapter. Chapters 2-5 go back to the basic accounting concepts that are explained in simple terms with the help of examples. For instance, Chapter 2 serves as a review of main financial statements such as balance sheet and income statement. Chapter 3 focuses “debit and credit” system of double entry accounting. Adjusting and closing inventories is presented in Chapter 4. After the foundation of financial accounting is completed, Chapter 5 introduces financial statement analysis through ratio analysis. The ratios analyzed in this chapter are selected financial and industry ratios. There are three shortcomings of this chapter. First, it fails to include some of the important ratios and fails to categorize these ratios into different categories. Second, additional financial statement analysis methods, namely horizontal and vertical analysis, are not included in this chapter. Third, this chapter would be more informative to the readers if the ratios were interpreted from different perspectives including managers’, owners’ and creditors’ perspective. Creditors and owners have different interests in the company while it is the management’s job to satisfy both of these parties. For example, creditors’ and owners’ preference differ in current ratio and acid-test ratio.

Chapters 6-12 focus on managerial accounting concepts. Chapter 6 discusses internal control followed by Chapter 7 that delves into cost management issues. Chapter 6 outlines 11 internal control principles hospitality companies can follow in relation to cash, purchases, inventory and payroll management. Cost management issues covered in Chapter 7 include different type of costs, allocation of indirect costs to the departments and the concept of opportunity cost, sunk

cost and incremental cost. Cost-volume-profit (CVP) analysis is presented in Chapter 8. Although the chapters in this section are reader-friendly and easy to understand, the explanations provided lack some insight and detail. Chapter 9 covers budgeting and responsibility accounting and discusses the issues that need to be considered in relation to four responsibility centers, namely cost center, revenue center, profit center and investment center. Chapter 10, flexible budgeting and variance analysis builds on the concepts introduced in Chapter 9. This is a well-written chapter that discusses important topics such as flexible budgeting and how it can be used to complement budgetary controls. This chapter also includes a short discussion on benchmarking on performance management. A new chapter in this edition is Chapter 11, performance management. This chapter explains the limitations of traditional financial performance measures such as REVpar, ROI and introduces balanced scorecard as a more comprehensive performance measurement that considers four aspects related to performance including financial perspective, customer perspective, internal process perspective and learning and growth perspective. The last chapter covered in this section, Chapter 12, is on cost information and pricing. This chapter introduces the factors that influence pricing policy along with cost-based approaches used to set up pricing policies in different parts of the hospitality industry. Considering that this chapter focuses on pricing techniques based on cost-based approaches, strategically, it would have been to place this chapter right after Chapter 7 or Chapter 8.

The third section of the book includes Chapter 13, working capital management and Chapter 14, investment decision-making. The main theme of Chapter 13 is the difference between cash flow and accounting profit. In addition, this chapter includes the discussion on main accounts of working capital such as cash, accounts receivable, inventory and accounts payable. Chapter 14 presents investment decision rules including accounting rates of return, payback period, net present value and internal rate of return. In these two chapters, the author gives a glimpse of some of the very important principles of financial management. However, this proves to be a challenge given that the explanation and discussion on these important concepts is limited to two chapters without the presence of any foundation chapters related to the basics of financial management.

This book is a good reference for hospitality managers and students with no background in accounting. The problems included at the end of the chapters are a great opportunity for the readers to practice their understanding of the concepts. The answers for the first three questions in each chapter are provided at the end of the book. Chapters also include learning objectives, cases and references. Another positive aspect of this book is its international orientation in comparison to the other books available in this field. The international orientation in this book is enabled in two ways. First, the book mentions differences in financial statements and key terms used in different countries. Second, various scenarios introduced throughout the chapters along with the problems posed for the readers are prepared in the context of different countries and currencies. A combination of generic business writing style with hospitality settings is used throughout the book. Overall, this book is designed and suitable as a basic accounting course in a hospitality and tourism management program.

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